



**MINUTES FROM THE MEETING OF
THE CASH MANAGEMENT POLICY BOARD
AUGUST 28, 2019**

A meeting of the Cash Management Policy Board ("Board") was held on August 28, 2019 at 10:00 a.m. in the main conference room of the Office of the State Treasurer ("OST"), located at 820 Silver Lake Blvd., Suite 100, Dover, DE 19904.

Board Members Represented or in Attendance:

Mr. John Flynn, Board Chair (Telephonically)
Mr. Warren Engle, Banking Subcommittee Chair (Telephonically)
Mr. Mike Karia, Investment Subcommittee Co-Chair (Telephonically)
Mr. David Marvin, Investment Subcommittee Co-Chair (Telephonically)
The Honorable Colleen C. Davis, State Treasurer (Telephonically)
Mr. Michael Morton, Controller General (Telephonically)
Mr. Jeffrey Bullock, Secretary of State (Telephonically)
Mr. Richard Geisenberger, Secretary, Department of Finance (Telephonically)

Board Members Not Represented or in Attendance:

Ms. Tarrie Miller, Board Member

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Ms. Liza Davis, Deputy State Treasurer, OST
Mr. Josh Berkow, Director of Debt and Cash Management, OST
Ms. Lisa Embert, Controller II, OST (Telephonically)
Ms. Paulette Hopkins, Payment Solutions Manager, OST (Telephonically)
Ms. Chris Haas, Director of Communications and Policy Advisor, OST (Telephonically)
Ms. Stephanie Scola, Director of Bond Finance, Department of Finance (Telephonically)
Mr. John Krimmel, Partner, NEPC
Ms. Jennifer Appel, Senior Research Analyst, NEPC (Telephonically)

CALLED TO ORDER

Mr. Flynn called the meeting to order at 10:05 a.m.

APPROVAL OF MEETING MINUTES

A MOTION was made by Mr. Morton and seconded by Mr. Karia to approve the minutes of the May 22, 2019 meeting.

MOTION ADOPTED UNANIMOUSLY

NEPC PERFORMANCE REPORT

2019 2nd Quarter Investment Performance Report

Ms. Appel presented the second quarter investment performance report to the Board. Ms. Appel provided the Board with context regarding the market volatility in the second quarter, including changes in Federal Reserve (“Fed”) policy. Ms. Appel noted that the market shifted from pricing in interest rate hikes to future rate cuts. Ms. Appel stated in July the Fed officially cut rates for the first time in 10 years by 25 basis points.

Ms. Appel noted that the recent interest rate cuts were likely the result of uncertainty across trade and macroeconomic factors. Ms. Appel noted that bond yields were suppressed and fixed income experienced a significant rally during this period. Ms. Appel discussed the flattening of the yield curve and concerns of a future yield curve inversion, due to the uncertainty in global markets. Ms. Appel stated that based on this information, the markets are now pricing in two or three rates cuts by the Fed before the end of 2019. The Board discussed the impact of recent changes to monetary and fiscal policy at the European Central Bank.

Mr. Krimmel reported to the Board that the three-month and year-to-date returns for the State’s portfolio were significant with respect to the second quarter of 2019. Mr. Krimmel stated that the combined return of the liquidity and reserve portfolio was 3.61 percent year-to-date. The liquidity portfolio for the three-month period was up 84 basis points from the prior period. Mr. Krimmel noted that there was longer duration among the liquidity managers throughout the second quarter as the managers had excess cash above what they felt was needed to satisfy current state obligations. Managers responded by extending the duration of their portfolios modestly, and by doing so were able to earn a small additional return during this period.

Mr. Krimmel stated that the reserve portfolio during the second quarter of 2019 was up 2.57 percent, with the underlying weighted benchmark of the portfolios measuring 2.7 percent during this same period. Mr. Krimmel stated the underperformance during this period resulted from the managers decisions to underweight the duration in their portfolios, as evidenced by the collective reserve portfolio duration of 4.21 years relative to the benchmark of 4.28 years. According to Mr. Krimmel, this change is most likely a defensive response to the potential for future rate changes.

Mr. Krimmel and the Board discussed the current \$2.5 billion valuation of the portfolio, in contrast to the \$1.6 billion balance assumed during the creation of the current portfolio architecture. Mr. Flynn asked Secretary Geisenberger and Treasurer Davis about the State’s cash inflows which have driven the current significantly high liquidity balances. Secretary Geisenberger noted that a large portion of the increase is due to the amount of reserves being held, including those funds associated with the budget stabilization fund. Secretary Geisenberger attributed the overall high portfolio balances to the time it takes to draw down the project funds for large capital projects which have been approved in the past two fiscal years. Secretary Geisenberger stated that should the economy go into a recession, then it is feasible to utilize excess funds per the recommendations made by the Committee to the Delaware Economic and Fiscal Advisory Council in 2018.

INVESTMENT SUBCOMMITTEE REPORT

Guideline Update Review

Mr. Berkow reviewed the proposed changes to the Guidelines recommended by the Investment Subcommittee. Mr. Berkow informed the Board that the current list is made up of changes which have been proposed and discussed throughout the year. Mr. Berkow noted that there had been consensus between the Board and OST that it would be more efficient to make changes as part of a single annual review process, due to the length of the Administration Procedure Act (“APA”) process for making formal Guideline changes. Mr. Berkow stated that the motion today will allow for OST to make the recommended changes to the Guidelines and proceed with the APA process.

The changes include the addition of merchant services-related settlement accounts, a clarification of the impermissibility of Rule 144A private placement securities, clarifying language regarding the list of approved U.S. Governmental Agency obligations, and the removal of the five percent cash holding requirement for the Endowment Accounts.

A MOTION was made by Mr. Marvin and seconded by Mr. Morton to approve the suggested changes to the Board’s Guidelines and allow OST to begin the APA process.
MOTION ADOPTED UNANIMOUSLY

Custodian Contract Extension

Mr. Berkow noted that the contract with the current custodian, Northern Trust, is up for renewal, with two optional one-year extensions available. Mr. Berkow commented that there have been no operational issues with Northern Trust, and the relationship has been strong overall. Mr. Berkow further noted that a contract review had been completed and no issues were identified.

A MOTION was made by Mr. Karia and seconded by Mr. Morton to recommend that OST exercise the first one-year extension of the custodian contract.
MOTION ADOPTED UNANIMOUSLY

BANKING SUBCOMMITTEE REPORT

Stored Value Card Implementation

Mr. Berkow provided an update to the Board regarding the transition to the new vendor, US Bank. Mr. Berkow explained that the largest component of the transition will be the required technical changes, which include establishing the file transfers between the bank and the respective agencies. Mr. Berkow noted that each of the three in-scope agencies has a unique file arrangement, but the hope is to have each agency onboarded by the end of calendar year. Mr. Berkow informed the Board that OST hopes to fully onboard the first agency, the Department of Labor, no later than October. However, Mr. Berkow did caveat that this timeline is heavily dependent on the timelines needed to develop the technical solution.

Banking Contract Update

Mr. Berkow stated there was a minor delay in finalizing the contract with JP Morgan concerning the date on which the fee waiver would commence. JP Morgan agreed to waive all electronic banking fees for the period of one (1) year. The final contract provides that the fee waiver would not begin until the date of the first completed transaction.

Mr. Berkow informed the Board that OST is requesting an extension of all current banking contracts set to expire on December 31, 2019. Mr. Berkow stated the request is to extend these contracts (for direct deposit, lockbox, collections and disbursements) for one (1) year, allowing for ample time to fully transition to JP Morgan. Mr. Berkow stated that while OST does not foresee needing the full year, it

does provide cushion for any unforeseen delay. Mr. Berkow stated that there will be language that will allow OST to end these contracts early in the event that all services have been fully transitioned to JP Morgan before December 31, 2020.

A MOTION was made by Mr. Morton and seconded by Mr. Engle to allow OST to proceed with extending the banking contracts for one year, ending in December 31, 2020.

MOTION ADOPTED UNANIMOUSLY

Local Bank RFP Update

Mr. Berkow provided a brief update to the Board regarding the Local Bank RFP issued last Spring. Mr. Berkow reminded the Board that this service was intentionally excluded from the larger Banking RFP, as this service is specifically designed for agencies and school districts that need a physical branch for over-the-counter banking. Mr. Berkow stated that a panel of subject matter experts from various agencies independently scored each proposal. Given the small number of proposals, and the high-quality of the vendors, Mr. Berkow stated that the panel invited each of the vendors to make finalist presentations. The panel recommended that M&T Bank receive the primary award. Mr. Berkow stated that this is a change from current practice and will require several accounts to transition to M&T from the incumbent. Furthermore, the panel recommended that the other three vendors, WSFS, Citizens, and TD Bank, be given awards as additional over-the-counter banks. Mr. Berkow stated the panel came to this conclusion to provide flexibility for agencies and schools to bank with partners within close geographic proximity.

A MOTION was made by Mr. Engle and seconded by Mr. Karia to give OST authority to negotiate and execute contracts with and issue awards M&T Bank, as the primary local bank, and WSFS, Citizens, and TD Bank, as authorized alternative local banks.

MOTION ADOPTED UNANIMOUSLY

Merchant Services Project Update

Ms. Liza Davis provided a contextual overview to the Board regarding the evolving merchant services project, involving front-end gateway processing, back-end merchant processing, and PCI compliance. Ms. Davis informed the Board that OST engaged the consultant, Arrow Payments, in January to help OST in its goal to address merchant services in a more holistic manner. The high-level assessment provided by Arrow provided several recommendations, many of which related to PCI. OST engaged a PCI firm, CampusGuard, to assist in the PCI annual self-assessment process for this current term. Based on the initial findings, CampusGuard recommended the State request an extension from BAMS on the annual certification process while the State addresses PCI-related issues.

Ms. Davis indicated a need for a complete assessment by an outside consultant. Ms. Davis noted that CampusGuard is available to complete such an assessment and has initially quoted the work below the State's \$50,000 procurement threshold. If the quote comes in close to or above the threshold, OST will need to issue an RFP.

The Board discussed the need and potential implications of continuing operations today. Secretary Geisenberger inquired about the status of the current annual self-certification process and questioned whether the State will be able to achieve compliance in two years. The Board discussed the timing of PCI compliance and remediation efforts.

**A MOTION was made by Mr. Engle and seconded by Secretary Geisenberger to authorize OST to engage CampusGuard to perform a PCI assessment at a price not to exceed \$50,000 or launch an RFP process for PCI assessment services if the cost exceeds the procurement threshold.
MOTION ADOPTED UNANIMOUSLY**

Merchant Services Consultant

Ms. Davis discussed the need for both OST and the Board to improve their working knowledge of merchant services. She presented the Banking Subcommittee's recommendation for OST and the Board to jointly retain a merchant services consultant.

**A MOTION was made by Mr. Engle and seconded by Mr. Karia to grant OST the authority to commence a joint RFP process for payment technology and PCI consulting services.
MOTION ADOPTED UNANIMOUSLY**

OTHER MATTERS OF THE BOARD

Addition of Ms. Miller to the Banking Subcommittee

**A MOTION was made by Mr. Engle and seconded by Secretary Geisenberger to appoint Ms. Miller to the Banking Subcommittee.
MOTION ADOPTED UNANIMOUSLY**

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

The next meeting is scheduled for December 4, 2019.

ADJOURNMENT

**A MOTION was made by Mr. Flynn and seconded by Mr. Engle to adjourn the meeting at 11:11 a.m.
MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

John Flynn
Board Chair